

Eurozone PMI improves ahead of possible new US tariffs

The March PMI shows cautious further improvement, up to 50.4 from 50.2 in February. Most notably, the manufacturing output PMI soared ahead of a possible further escalation of the trade war. For the first quarter, this means that a positive GDP growth print is likely after stagnation at the end of last year



Ahead of a possible further escalation of the trade war with the US, eurozone businesses are becoming slightly more positive about the economic environment. The eurozone economy fell back into stagnation in the final quarter of last year, adding to concerns about structural economic weakness. It looks like the first quarter of this year will show a small return to growth. However, with external demand still very much under pressure and more tariffs looming, the short-term outlook remains modest.

The manufacturing output PMI increased to the highest level in two and a half years (from 48.9 in February to 50.7). This comes as signs of bottoming out become more broad-based. Improving production for now still happens on a shaky foundation as new orders continue to contract, but the contraction of new orders is becoming smaller by the month. Expectations of significant defence and infrastructure investment help optimism about a more sustained recovery –

especially in Germany, where the manufacturing PMI soared – but export orders could remain under pressure given the trade war and global sluggish demand.

For services, a possible escalating trade war should be less of a concern. Domestic demand is far more important and with purchasing power improving, this bodes well for further growth. Still, consumer confidence suffers from geopolitical tensions, which therefore means that the services outlook also remains subdued for now.

Price pressures eased in March, which adds to the conundrum that the European Central Bank finds itself in at the moment. At the April meeting, the ECB will ponder whether to continue to ease or pause the cut cycle to see how uncertainty plays out. The March picture that the PMI paints is one of modest improving growth with easing inflation. However, next week could already upend that picture as US tariff announcements and possible European retaliation may change the economic landscape significantly.

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